A BLUEPRINT FOR TAKING THE GUESSWORK OUT OF YOUR NEXT HIRE

Inc.

THE MAGAZINE FOR GROWING COMPANIES

'HANDS ON'
34 IDEAS YOU CAN USE

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AND MORE!

SHOULD YOU START YOUR OWN BUSINESS?

REAL ENTREPRENEURS TELL YOU HOW TO MAKE THE RIGHT DECISION
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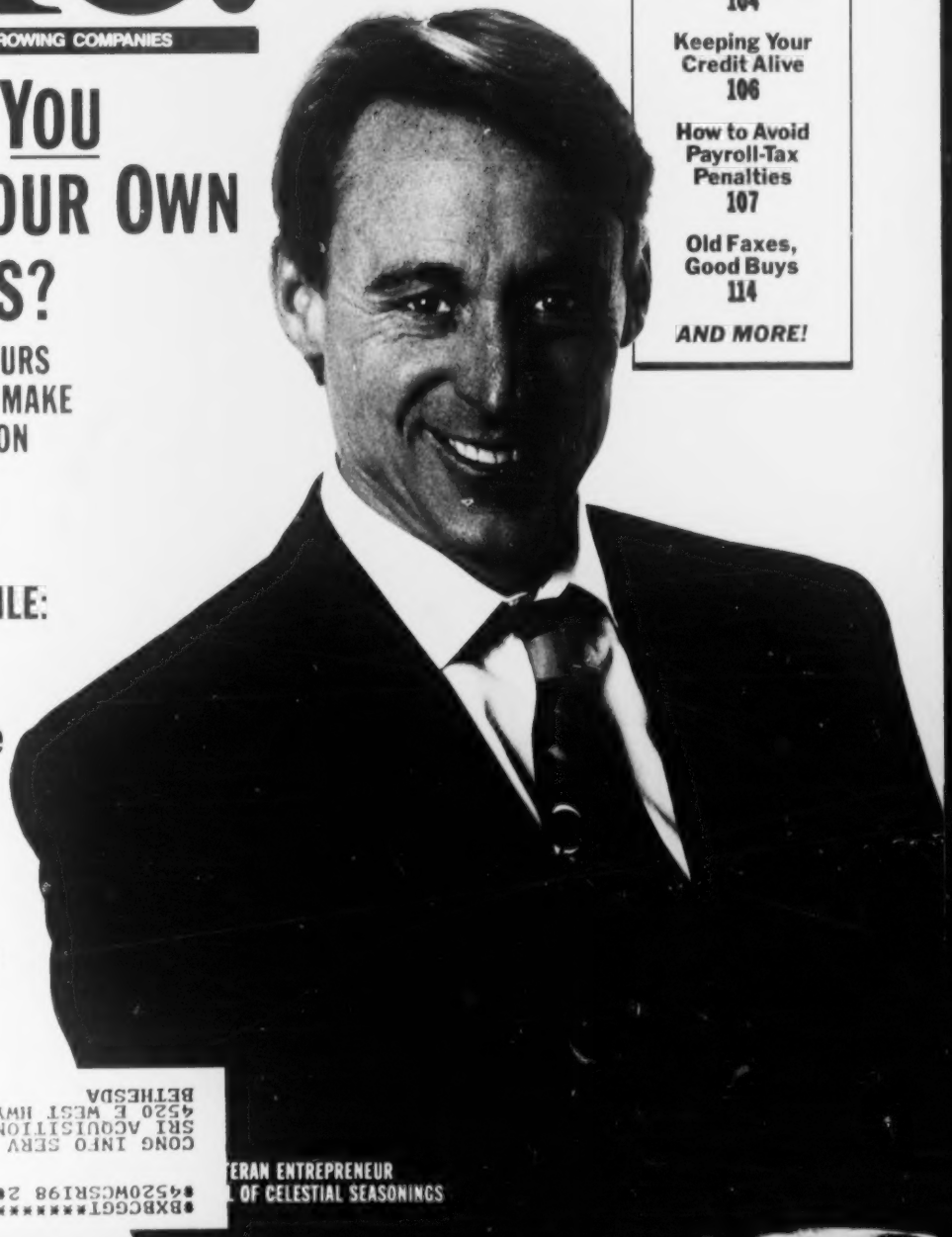
How to Make Bootstrapping Your Competitive Weapon

GOOD FORM:
Tools to Manage Your Time



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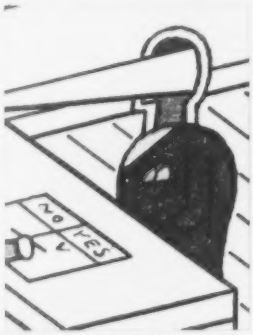

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COVER PHOTOGRAPH by BONNIE SCHIFFMAN, Onyx

RESULTS FROM
NOVEMBER

The Inc. FaxPoll™

ARE PARTNERS BAD FOR BUSINESS?

Yes . . . and no. Most of you saw some good in partnerships, but the majority felt the personal costs ultimately outweighed all benefits.

59%

YES

IS PARTNERSHIP A BAD WAY TO RUN A BUSINESS?

No

39%

This is obviously an emotional, volatile, and very personal issue. Nearly all of you who responded said you have a partner now or have had one at some point in your career, and you spoke of the experience in very personal, familial terms—though only 20% of you are actually in partnerships with family members.

Those of you who disliked partnerships focused on the souring of personal relationships as the main reason for your opinion. Some told stories of rampant lies and deceit, while others simply spoke of differing priorities: "Too much time is spent on partnership problems and structure, which diverts the focus from the business," said one.

Surprisingly, very few of you who have little confidence in partnerships mentioned money as the reason. Only 6% felt the dilution of equity was a good reason not to take on a partner. But several of you did refer to the costs of a partnership's breakup: "Dissolving my partnership was expensive and emotionally draining. The attorneys were the only winners."

A number of you chastised us for phrasing our questions as if this were a black-and-white issue, and perhaps you are right. To prove your point, a significant percentage of the antipartnership group still chose to weigh in on "Why Are Partnerships Good?" And those who supported partnerships also gave us input on their darker side. For instance, among those of you who felt partnerships were a good way to run a business, 18% voiced serious doubts about whether the inevitable personal feuding was worth it.

WHY IS PARTNERSHIP BAD?

Personal conflicts outweigh the benefits	60%
Partners never live up to one another's expectations	59%
Companies function better with one clear leader	53%
Dilutes equity too much	6%
You can't call your own shots	6%

WHY IS PARTNERSHIP GOOD?

Spreads the workload	55%
Spreads the emotional burden	41%
Buys executive talent not otherwise affordable	40%
Spreads the financial burden	33%
Makes company building less lonely	26%

Those of you who said partnerships were beneficial clearly feel that benefit lies in spreading the burdens—emotional, financial, and operational—of entrepreneurship. "It's nice to know that when one partner is out of the office, the other can handle things," was a frequently heard response. Even among those not in favor of partnerships, 13% volunteered that burden sharing was an advantage.

Forty percent of the propartnership group said partnerships were great for infusing a company with executive skills that would be hard to come by through hiring. "A good partner will allow for faster growth for the business," said one; "We were successful because of our complementary talents," offered another. Still, on that point, at least one of you warned that taking on partners was an inefficient and risky way to build your talent pool: "Don't take on a partner if you can hire someone to do the same thing."

A number of you stressed the importance of establishing certain goals up front for anyone who chooses to be in a partnership. "It's a great business form when the partners take the time to get their legal/ethical stuff clarified and aligned at the start."

In the final analysis, it was your perception of the equality of your partnerships that most strongly colored your opinions. Of those who characterized partnerships as bad for business, the majority (75%) said they were or are in partnerships in which one or the other partner is perceived as running the company. Of those who characterized partnerships as good, the majority (60%) said they were or are involved in "equal partnerships." ⌟

IN YOUR PARTNERSHIP, WHO REALLY RUNS THE COMPANY?

You	52%
Equal Partnership	39%
Your Partner	9%

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(MARKET RESEARCH, from page 99)
set up smaller units of customers and people from Specialized who took notes. In a written survey, each dealer ranked the color and overall look of some 40 bikes on a scale of one (low) to six (high), keeping in mind Specialized's image. Then the whole group discussed the scores.

After: Do an immediate debriefing back at headquarters, urges Vincent. If too much time passes, "interpretations start to creep in." Breede believes many companies don't take into account how group dynamics can affect feedback, so he also puts great stock in the individual dealers' written surveys. Based on feedback, Specialized winnowed the 40 possible bike designs down to 26. Also, Breede says, by listening to customers' observations—some said, for example, that fluorescent colors clashed with their perception of the Specialized image—"we got a clearer vision of who they thought we were."

Hosting roundtables isn't cheap. Specialized spends $800 and up per customer. But president Mike Sinyard figures, "if you fix just one direction, you've saved about $100,000 in R&D costs"—plus millions more in inventory.

Those on a tighter budget might consider the approach of the Fox Valley Spring Co., an Appleton, Wis., spring manufacturer with about $1 million in sales. Each year the company sends to key customers and prospects a detailed questionnaire, according to co-owner Kay Krebs. The results of Krebs's most recent survey told her that some key customers were having service problems; they also told her how those customers ranked the competition, and what they thought of Fox Valley's products. Total cost? About $5,000 to design, mail, and tabulate the survey. Ultimately, Fox Valley plans to use the results as fodder for in-person roundtables.

The benefits of any well-planned approach to gathering customer feedback are clear. For Specialized, preseason orders for 1992 bikes outpaced any previous year's. And that's for a company whose sales have already grown by more than 200% since 1986. **—S. G.**

COMPENSATION

Rethinking Quotas

IN THE BEGINNING IT MADE sense to pay your salespeople using a straight revenue-based quota system. After all, the goal was to sell, period. Now profits mean as much as or more than volume. Yet if you're like most CEOs, you still pay your salespeople the old way, on sales volume alone. (See chart.)

Rick Rose, president of Dataflex, has devised a more balanced compensation plan that feeds corporate goals and enables him to more equitably rank the 13 salespeople at the Edison, N.J., company, which resells and maintains PCs and peripherals.

Borrowing from Big Blue, Rose created a balanced performance quota (BPQ). "In any sales force, you have multiple things going on—maintaining old accounts, going after new business," Rose notes. "The BPQ lets people compete despite different responsibilities."

For example, for a new account rep at Dataflex: hitting the goal of landing *x* new accounts is worth 40% toward quota; hitting *y* gross profit margin (sales minus cost of goods sold, divided by sales) is worth 40%; and bringing in *z* in revenues, 20%. But for a territory rep (the next level up), the BPQ differs significantly: the gross-profit-margin goal is worth 50%, the revenue goal 25%, and the product-mix goal—selling a range of company products and services—is 25%.

"When we do our sales goals each year, we make the BPQ the minimum requirement," Rose says. Dataflex's commission structure (all salespeople work only on commission) is based on reaching 100% of the BPQ. Most make or exceed it, he reports. There's no cap. "The more they exceed their BPQ, the more they make." The payoffs of the BPQ are

- **Increased profit margin.** While other companies focus on revenues only, Rose pays strict attention to gross profit margin. As a result, in the past three years Dataflex's gross profit margin rose to 17.2% in 1991, from 15.4% in 1988. The emphasis on margin helps salespeople decide how to use their time.
- **More profitable sales.** To underline the importance of selling from the company's product mix—namely services (maintenance, training, custom design work)—for the territory sales rep, Rose gave product mix the same weight as revenues. While Dataflex sells lots of hardware, "services are where we really make our margins."
- **Motivated sales force.** In the past three years sales have increased fourfold, from $23 million in 1988, to $93 million in 1991. "The corporate goal was 20% to 25% growth," Rose marvels. "That means a lot of salespeople did two to three times what was asked of them." **—S. G.**

How Sales Goals Are Set

Sales executives are accustomed to measuring the success of their sales force in terms of volume — such as total number of calls or total revenues. Old habits are hard to break: less than half the companies recently surveyed said they take profits into consideration when setting sales goals and evaluating the performance of their salespeople.

Source: "Sales Productivity in the 1990s," a survey of 300 sales executives, 76% with 99 or fewer salespeople. Learning International, Stamford, Conn., 1991.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

(*COMPENSATION, from page 103*)
starts with 50 points. Each month NDI's employees receive their personal calculation for the previous 30 days. If the employee ends up with a positive number, he or she receives a bonus check. Gordy made each bonus point worth $1 last year. Some employees earned more than $1,000 in bonuses for the year, on a salary of about $12,500. Gordy hopes to beef the bonus points up to $2 each by 1993.

This plan has had a dramatic effect on the company. NDI's 33 employees are supporting revenues of $3.3 million, although it took nearly 50 people to produce $1 million worth four years ago. The bonus dollars awarded have increased almost every month because employees are taking less time off from work and reworks are at a minimum. Plus, NDI has not lost any designers—who take the longest to train—in two years. —*E. E. S.*

EMPLOYEE TESTING

T or F? Honesty Tests Really Work

INC.'S "SCOUT'S HONOR" honesty poll (Managing People, September 1991) produced some passionate responses. We were emphatically advised about proper behavior and counseled about how to pose better queries. (See chart, below right.) The first thing we learned about honesty quizzes is that they can provoke a lot of resentment among test takers.

We've also learned that even seemingly irrelevant questions can pose problems for less than honorable test takers. "The content of items really doesn't make any difference," explains Dr. David Arnold of Reid Psychological Systems. "We may have an item that says, 'I would really like to try skydiving.' It's hard to come up with why that has any connection to honesty in the workplace. But we may have research that shows people with high levels of integrity say they would like to try skydiving."

So how well do skydiving questions weed out the undesirables? Well, they're no panacea. According to Arnold, Reid correctly classifies test takers only 80% to 85% of the time. It errs in both directions. Seven percent to 10% of the people you hire based on the test will not be trustworthy, and 7% to 10% of the people you turn down because of it would have been good employees, says Arnold. Yet Dr. Wayne Camara of the American Psychological Association says: "We still find these tests work better than any other technique."

If you're thinking of using honesty tests, beware. Some have so little supporting research that their claims are almost fraudulent, says Camara. And although the three largest publishers (see Resources, below left) have loads of research behind their tests, think twice before buying a test on the strength of that fact alone. All tests must be carefully matched to your organization and the job.

The best way to pick a test is to hire an industrial psychologist, a labor lawyer, or an academic to evaluate the test that's best for you. But since that may cost you up to $100 an hour, you may want to do your own analysis. As a guide, consider Linda A. Goldinger, R. Michael O'Bannon, and Gavin S. Appleby's *Honesty and Integrity Testing: A Practical Guide* ($39.95 plus $4 for shipping, Applied Information Resources, P.O. Box 420281, Atlanta, GA 30342), which describes all the facets of honesty tests, reviews 40 tests, and includes a descriptive directory. Or the Association of Personnel Test Publishers' *Model Guidelines* ($10, 202-639-4314) for integrity tests. It doesn't critique specific tests, but it does tell you about how to select tests and interpret scores. —*E. E. S.*

▼ ▼ ▼ ▼ ▼

JUST HOW HONEST ARE YOU?

WE DON'T HAVE THE "RIGHT" answers to *Inc.*'s "Scout's Honor" honesty poll—those are proprietary, according to the test publishers from whom we purloined our questions. But we do have some bad news for the IRS. Not content to answer a simple Yes or No to Question 8, a large number of our respondents agreed with the reader who wrote, "Of course—I think that's called aggressive tax avoidance." Here's how *Inc.* readers compare with one another on the questions:

	AGREE	DISAGREE	UNDECIDED
1. It's OK to take something from a company that's making too much profit.	—	97%	3%
2. Stealing is just a way of getting your fair share.	—	100	—
3. If I'm passed over for a promotion, it's OK to take things from work to get back at the company.	—	100	—
4. When a store overcharges its customers, it's OK to change price tags on merchandise.	—	97	3
	NO	**YES**	**UNSURE**
5. Do you always tell the truth?	83%	15%	2%
6. Did you ever think about committing a burglary?	70	30	—
7. If you could get into a movie without paying and not get caught, would you do it?	70	29	1
8. Is it OK to get around the law if you don't actually break it?	27	61	12

RESOURCES

Three Testing Goliaths

Experts may criticize honesty tests, but almost everyone agrees that the three largest test publishers have well-documented research. Here's who the honesty-test giants are:

- Reid Psychological Systems, The Reid Report (312-938-9200). An order of 10 to 24 tests costs $17.50 per test and includes scoring services.
- The Stanton Corp., The Stanton Survey (800-528-5745; 704-552-1119 in North Carolina). Cost: $14 per test (scored over the phone) for an order of 25 or fewer tests; $7.50 per test (scored by an on-site computer) for 500 or more tests.
- London House, The Personnel Selection Inventory (800-221-8378). Depending on which version you order, the PSI costs from $8 to $18 per test for a minimum order of 25 tests. Price includes scoring and telephone consulting services. —*E. E. S.*

BUSINESS FOR SALE
NORTH CAROLINA RACQUET CLUB

THE BUSINESS The largest facility of its kind in the southeastern United States, this club has 600 members: 20 outdoor and 9 indoor tennis courts (generating 77% of revenues); a Nautilus fitness center and an aerobics room (18%); a café; a pool; a pro shop; and three air-conditioned racquetball courts, all spread across 12 verdant acres. The owner, who opened the club nearly 20 years ago, wants to change careers.

FINANCIAL SUMMARY

	1989	1990	1991*

PRICE

OUTLOOK Mixed. Exercise remains hip, especially among gracelessly aging baby boomers, and tennis, after slumping in the 1980s, is coming back. But in these more downmarket times, health clubs themselves are being threatened by such low- or no-price alternatives as the YMCA and your local municipal park, and club failure rates are 50% worse than they were a decade ago. Still, this club boasts margins (23% recast net) that most others (industry average: 7%) can't touch.

PRICE RATIONALE In terms of its size and range of facilities, this is a lot of club: nearly $3 million in hard assets alone. But unless you're looking for your own private playground, you're buying the club's income-producing potential, not its hard assets. Experts say clubs like this typically fetch between 3 and 6 times net operating income, which makes this price—18 times earnings—appear, well, ludicrous. What's the deal? Several advisers wondered whether all those tennis courts represent the "highest and best use" for all that land.

PROS There *is* room for expansion, and it's got to be good for the soul to spend workdays around people having fun. Couldn't be bad for the body, either.

CONS The price. The low gross. The price. The stiff and plentiful competition in the club's home market. And, uh, *the price.* —*Alessandra Bianchi*

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